

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 NSC-05

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FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 3547

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LODNDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

UNCLAS COPENHAGEN 3837

EO 11652: N/A

TAGS: EFIN, DA

SUBJ: CONSOLIDATION OF DANISH FOREIGN EXCHANGE POSITION

REF: COPENHAGEN 3683

1. REDUCED PRESSURES ON THE DANISH KRONE SINCE THE SNAKE
REALIGNMENT IN OCTOBER REDUCED NET RESERVE LOSSES DURING
THAT MONTH TO A NOMINAL LEVEL DESPITE HEAVY LOSSES DURING
THE EARLY PART OF THE MONTH. ABOUT \$160 MILLION EQUIVALENT
REPORTEDLY FLOWED BACK IN THE LAST TEN DAYS OF OCTOBER.
INCLUDING SOME PUBLIC BORROWING ABROAD, RESERVES IN OCTOBER
ROSE SOME \$65 MILLION TO A LEVEL OF \$750 MILLION, STILL 30
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PERCENT BELOW LAST YEAR'S LEVEL.

2. THE DANMARKS NATIONALBANK (CENTRAL BANK) IN ANNOUNCING THIS CONSOLIDATION OF RESERVES COMMENTED THAT CURRENCY OUTFLOWS SINCE SEPTEMBER, WHICH NECESSITATED HEAVY INTERVENTION IN SUPPORT OF THE KRONE, CONTINUED IN OCTOBER (AFTER THE GERMAN ELECTIONS) THOUGH AT A REDUCED RATE. HOWEVER, AFTER THE SNAKE REALIGNMENT ON OCTOBER 18, THE MARKET BEGAN TO NORMALIZE, AND THE CENTRAL BANK WAS ABLE TO WIND UP SIGNIFICANT PARTS OF ITS INTERVENTION DEBTS TO THE BUNDESBANK.

3. WITHOUT PUBLIC BORROWING IN OCTOBER, THERE WOULD HAVE BEEN A NET RESERVE LOSS OF SOME \$65 MILLION AS COMPARED TO MONTHLY LOSSES DURING 1976 AT A RATE OF ABOUT \$200-225 MILLION. CONSIDERING THAT THE CONSOLIDATION WAS ACCOMPLISHED ONLY IN THE LAST TEN DAYS OF OCTOBER, THE BALANCE HAS APPARENTLY BEEN AS POSITIVE IN LATE OCTOBER AS IT WAS NEGATIVE BEFORE.

4. THE RESERVE CONSOLIDATION IS REFLECTED ALSO IN THE QUOTATION OF THE KRONE INTERNATIONALLY. SINCE THE REALIGNMENT, IT HAS PERSISTED AT THE TOP OF THE SNAKE, ALTHOUGH THE DISTANCE FROM OTHER SNAKE CURRENCIES IS BEING SLOWLY REDUCED.

5. THE RESERVE CONSOLIDATION AND THE RELATIVE STRENGTH OF THE KRONE SINCE THE SNAKE REALIGNMENT REFLECT THE WINDING-UP OF ABNORMAL PAYMENTS PROCEDURES, INCLUDING VERY LARGE AMOUNTS OF FORWARD TRADE. THIS NORMALIZATION MAY STILL TAKE SOME TIME, PROBABLY TOWARD THE END OF THE YEAR. BEYOND THAT, THE POSITION OF THE KRONE IS STILL UNCERTAIN SINCE INDICATIONS OF AN IMPROVEMENT IN THE UNDERLYING FACTORS OF TRADE AND PAYMENTS BALANCES REMAIN WEAK.
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